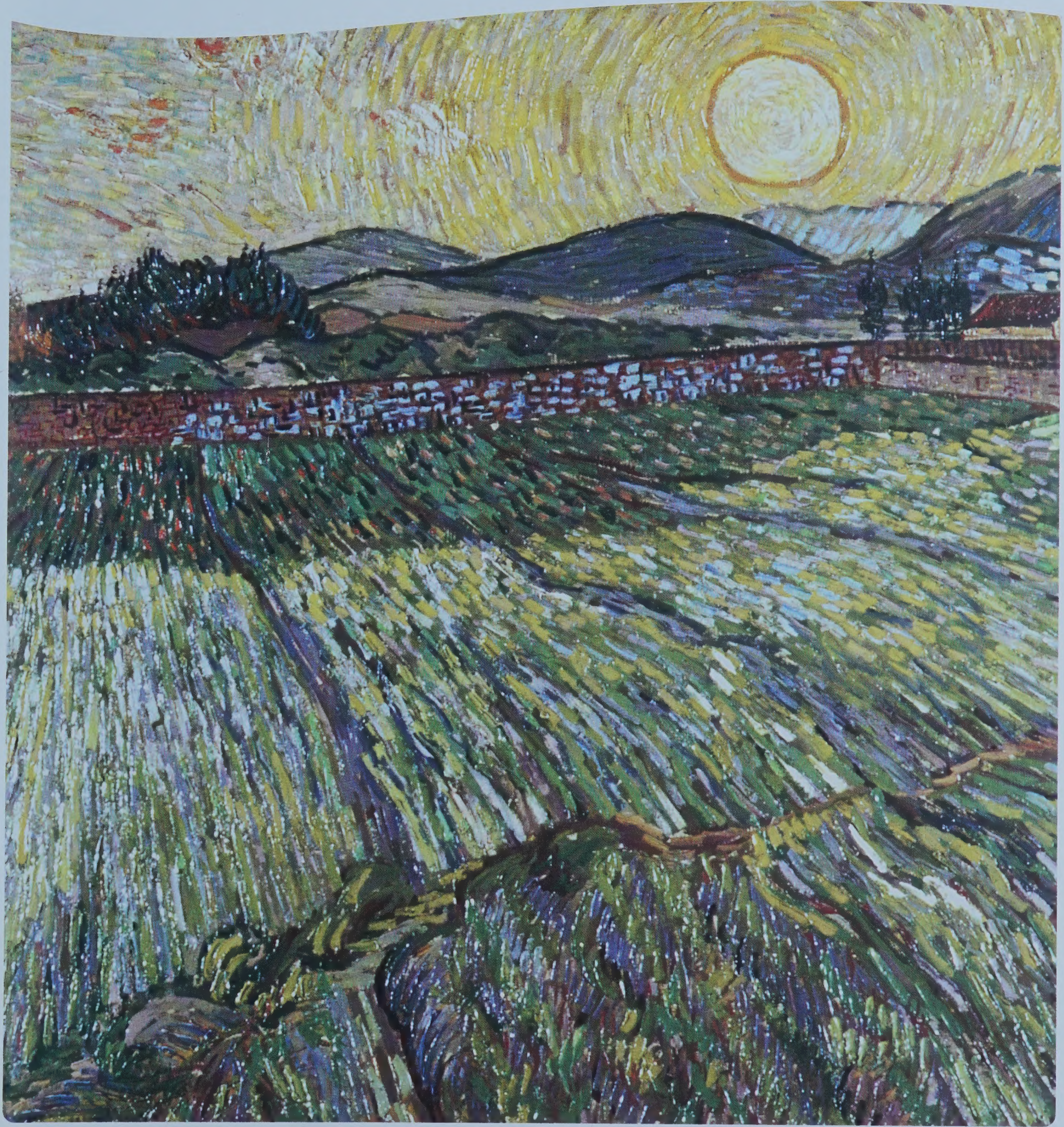
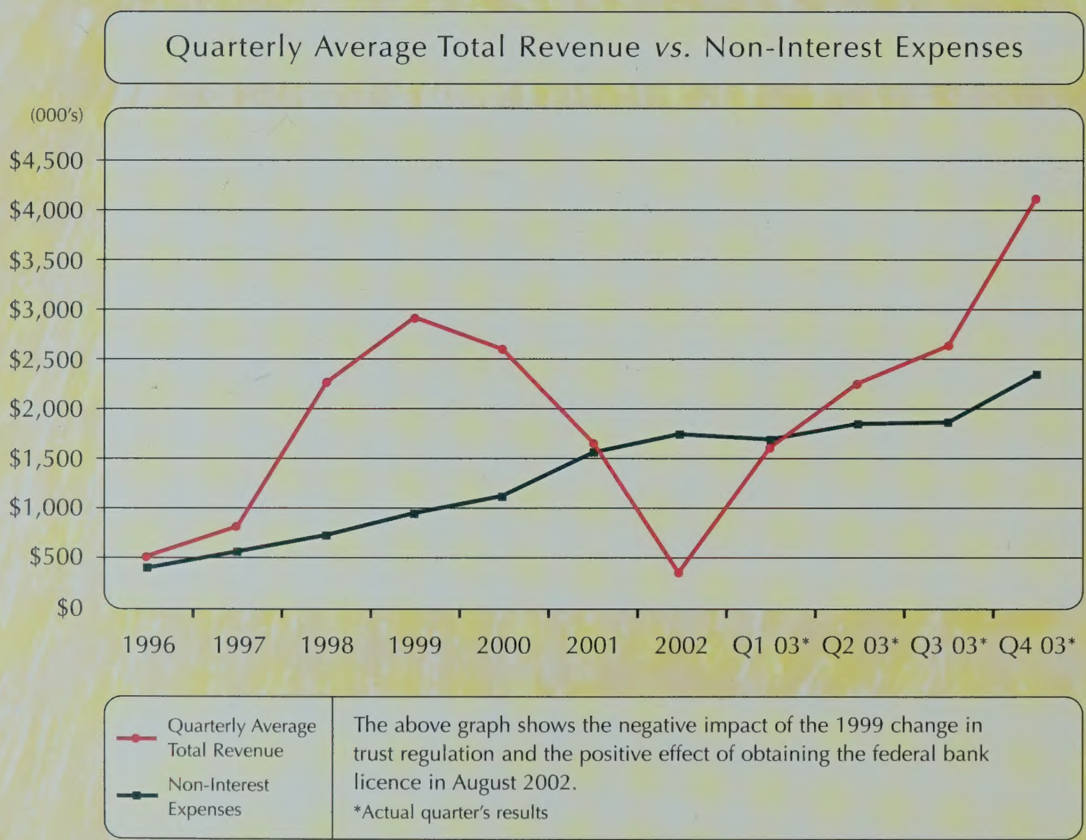
Pacific & Western
Credit Corp.

A new day. A bright future.

2003 Annual Report



FINANCIAL **HIGHLIGHTS**



The above graph shows the negative impact of the 1999 change in trust regulation and the positive effect of obtaining the federal bank licence in August 2002.

*Actual quarter's results

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Corporate Information – *Back Cover*

(thousands of dollars)	---- October 31----- 2003	2002**	----------- December 31----------- 2001	2000	1999
OPERATING RESULTS					
Interest income:					
Loan interest	$ 31,846	$ 25,843	$ 29,068	$ 25,841	$ 18,546
Securities (teb)*	14,488	11,158	20,006	18,285	11,159
Loan fees	1,485	569	725	1,000	868
Total	47,819	37,570	49,799	45,126	30,573
Yield on assets	6.50%	6.21%	7.02%	7.31%	6.65%
Interest expense	38,192	35,159	42,817	35,607	22,635
Cost of funds	5.19%	5.81%	6.04%	5.77%	4.92%
Net interest income (teb)	9,627	2,411	6,982	9,519	7,938
Spread (teb)	1.31%	0.40%	0.98%	1.54%	1.73%
Provision for losses	501	890	289	346	321
Other income (teb)	1,236	(363)	118	1,185	4,255
Total revenue (teb)	10,362	1,158	6,811	10,358	11,872
Non-interest expenses:					
Salaries and benefits	3,775	2,760	2,700	2,167	1,709
General and administrative	3,042	2,452	2,840	1,866	1,852
Premises and equipment	941	637	694	408	353
Total	7,758	5,849	6,234	4,441	3,914
Net earnings (losses)	1,512	(3,389)	(876)	3,040	4,718
BALANCE SHEET ITEMS					
Assets:					
Cash and securities	180,625	289,625	297,752	284,934	208,856
Mortgages and loans	552,405	402,932	413,825	381,844	322,192
Other assets	21,038	25,749	21,799	19,175	12,900
Total	754,068	718,306	733,376	685,953	543,948
Average assets	736,187	725,841	709,665	614,951	458,544
Liabilities:					
Deposits	673,229	636,351	673,925	629,002	488,919
Other liabilities	5,865	8,267	4,385	2,901	3,520
Notes payable	34,186	34,186	24,686	22,686	22,689
Total	713,280	678,804	702,996	654,589	515,128
Shareholders' equity	40,788	39,502	30,380	31,364	28,820
Total	$ 754,068	$ 718,306	$ 733,376	$ 685,953	$ 543,948

** teb - tax equivalent basis*

*** amounts for 2002 are as at October 31, 2002 and for the ten months then ended*

PRESIDENT'S **MESSAGE**

I am pleased to report that 2003 was a successful year. It was the first year that our wholly-owned subsidiary, Pacific & Western Bank of Canada, operated as a federally regulated Schedule I bank. Prior to that time, our subsidiary had operated as a provincially regulated trust company and its performance had suffered in the last two years of operation due to a change in regulation.

We were confident that our efficient financial institution would do well if it was able to operate on a level playing field. On August 1, 2002, we were granted this level playing field and were able to again conduct our profitable leasing and lending business. Our loan and lease portfolio grew by more than 35% as a result of booking over $250 million in new loans and leases. This had a very positive effect on our net interest income, which increased by nearly seven times to $8.3 million. Net earnings increased from a loss of $3.4 million to a $1.5 million profit. This turnaround was recognized by the marketplace and our shares led the banking industry, increasing by 72%.

This year we expect our loans and leases will again grow by 30%, which will result in our assets growing to approximately $1 billion. As we have considerable excess operating capacity, I expect only marginal increases in our non-interest expenses, which should result in continuing increases in our profitability.

"This year we expect our loans and leases will again grow by 35%."

I believe that the bank we have built is ideally suited for the markets in which it operates. Already, at its modest size, it is one of the most efficient financial institutions in the country. Our asset to employee ratio is more than three times better than the industry average and our non-interest expense to asset ratio is less than a third of that averaged by the industry. With these advantages and the dedication of our staff and directors, I am confident our Corporation will deliver strong results to all our stakeholders.

D. R. Taylor.

David R. Taylor
President & Chief Executive Officer

CHAIRMAN'S **MESSAGE**

Good governance and good results go together. We stress that our Board of Directors be composed of strong, independent members who are known for their integrity, ability and expertise. These Directors are not only able to provide strong corporate governance, but their respect in the business and professional community brings respect to our Corporation. As a result, there are better opportunities for our Bank to outperform.

Banking big by being small. Our focus is to bank big but stay small. Our goal is to provide outstanding results within specialty market areas. We can therefore provide a strong bottom line and attractive results to our shareholders by staying focused on a small number of opportunities. With the use of advanced technology and staying in our select marketplace, we can provide banking solutions that are tailored to the needs of our customers and delivered on time. We can achieve superior performance by realizing that all banking entails risk. We price to the perceived risk but reduce the actual risk by superior knowledge, expertise and focus.

"Banking big by being small."

Management. David Taylor, your President and CEO, and his management team are to be complimented on overcoming the challenges of restructuring from a provincial trust company to a chartered bank. Management means managing difficult external forces and being successful. As a result of strong leadership and management, we now have the right structure and team. The future looks promising.

Peter R. Lockyer
Chairman of the Board

OUR **INVESTMENTS**

KANANASKIS IMPROVEMENT DISTRICT
Equipment Lease

THE HOSPITAL FOR SICK CHILDREN
Equipment Lease

TERRACORP. MANAGEMENT INC.
Project Financing

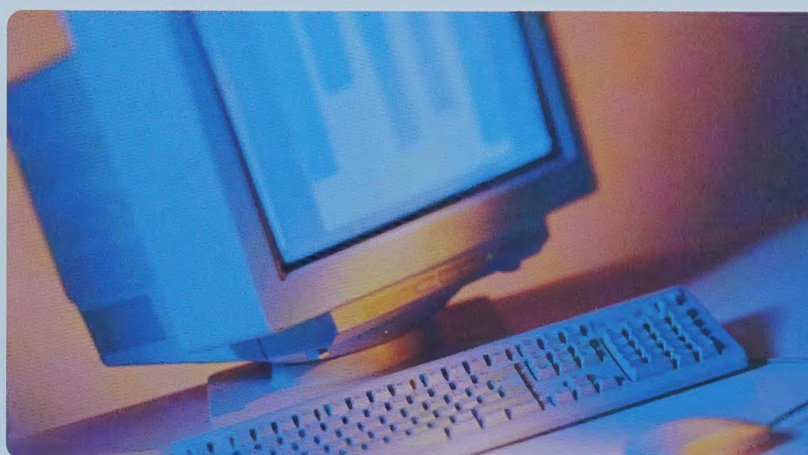
HAASTOWN HOLDINGS
Project Financing

Ross P. Duggan (left)
Vice-President

Bruce M. Schruder (right)
Vice-President

DOMUS DEVELOPMENTS
Project Financing

LAKERIDGE HEALTH
Equipment Lease



KING'S COLLEGE
Project Financing

HAMILTON HEALTH SCIENCES
Equipment Lease

Barbara E.M. Hale (left)
Vice-President, Compliance,
General Counsel and Secretary

Bruce M. Schruder (right)
Vice-President

GIVE & GO™

GIVE & GO PREPARED FOODS
Equipment Lease

OLD OAK PROPERTIES
Bringing space to life

OLD OAK PROPERTIES
Project Financing

THE TRICAR GROUP
Real Estate Development Property Management

THE TRICAR GROUP
Project Financing

CHAMPION
CHAMPION ROAD MACHINERY SALES
A DIVISION OF VOLVO MOTOR GRADERS LIMITED

CHAMPION ROAD MACHINERY SALES
Equipment Lease

OUR**COMMUNITY**

Pacific & Western is committed to the ongoing support of organizations within the community. Here are some recent examples.

AUTISM SOCIETY ONTARIO

CANADIAN DIABETES ASSOCIATION | ASSOCIATION CANADIENNE DU DIABÈTE

LONDON HEALTH SCIENCES CAMPAIGN

COUNTRY CLASSIC AUCTION

Junior Achievement LONDON & DISTRICT INC.

ST JOSEPH'S HEALTH CARE LONDON FOUNDATION

MANAGEMENT'S

DISCUSSION & ANALYSIS

FINANCIAL HIGHLIGHTS

Key Performance Indicators

(teb)[1]

(thousands of dollars)	2003	2002 (10 months)[2]
Financial performance		
Net interest income	$ 9,627	$ 2,411
Spread (%)	1.31%	0.40%
Net earnings (loss)	1,512	(3,389)
Earnings (loss) per share		
-basic	$ 0.10	$ (0.27)
-diluted	$ 0.10	$ (0.27)
Return on average shareholders' equity	4.13%	-10.22%
Return on average total assets	0.21%	-0.47%
Non-interest expenses	1.05%	0.97%
Efficiency ratio	71.42%	285.60%
Total assets per employee	$ 18,852	$ 20,523
Financial position		
Cash and securities	$ 180,625	$ 289,625
Mortgages and loans	$ 552,405	$ 402,932
Total assets	$ 754,068	$ 718,306
Average assets	$ 736,187	$ 725,841
Deposits	$ 673,229	$ 636,351
Shareholders' equity	$ 40,788	$ 39,502
Credit quality		
Provision for credit losses as a % of average total loans	0.10%	0.22%
Gross impaired loans as a % of total loans	1.13%	2.54%
Allowance for credit losses as a % of gross impaired loans	23.60%	15.74%

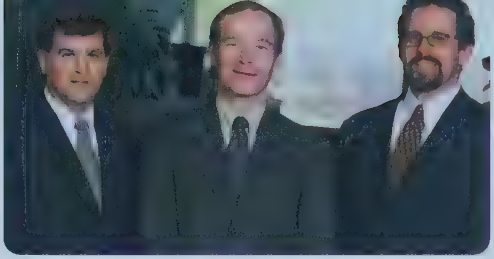
[1] Most banks analyze revenue on a taxable equivalent basis (teb) to permit uniform measurement and comparison of net interest income. Net interest income includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividends received is lower than would apply to a loan or taxable security of the same amount. The taxable equivalent basis includes an adjustment that increases interest income and the provision for income taxes by an amount that adjusts the income on the tax-exempt securities to what income would have been had it been taxed at the statutory rate.

[2] In 2002, Pacific & Western Credit Corp. (the Corporation) changed its year end from December 31st to October 31st to coincide with that of other publicly traded Canadian banks. Therefore, comparisons for the year ended October 31, 2003, are to the ten months ended October 31, 2002.

Barry D. Walter (left)
Chief Financial Officer

Steven N. Creery (centre)
Manager, Real Estate Lending

Jonathan F.P. Taylor (right)
Senior Vice-President, Operations

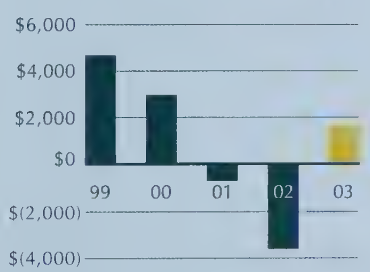


Overview of 2003

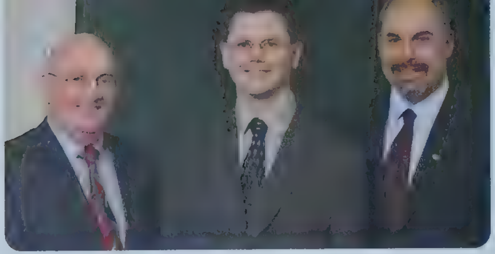
The year ended October 31, 2003 marked the close of the first full year that the Corporation's principal subsidiary, Pacific & Western Bank of Canada, operated as a Schedule I bank. Total assets of the Corporation increased to $754 million at October 31, 2003, from $718 million at October 31, 2002. Lending assets increased by 37% over last year, increasing to $552 million from $403 million. The growth in lending assets resulted primarily from the redeployment of low yielding excess treasury assets. Cash and securities reduced to $181 million or 24% of total assets at October 31, 2003, from $290 million or 40% of total assets at October 31, 2002. While lending assets increased, credit quality remained strong with gross impaired loans and foreclosed real estate totalling $6.3 million or 1.13% of total loans at October 31, 2003, compared to $10.2 million or 2.54% of total loans at October 31, 2002. The provision for credit losses as a percentage of average total loans at October 31, 2003, was 0.10% compared to 0.22% at October 31, 2002. Due to the increase in its loan portfolio during 2003, the Corporation continued to add to its general allowance for credit losses in accordance with corporate policy. Total allowance for credit losses as a percentage of gross impaired loans increased to 24% at October 31, 2003, from 16% at October 31, 2002.

Net earnings of the Corporation for 2003 improved to $1.5 million or $0.10 per share from a net loss of $3.4 million or $(0.27) per share for the ten months ended October 31, 2002. Net interest income increased to $9.6 million or 1.31% for the year ended October 31, 2003 compared to $2.4 million or 0.40% on an annualized basis for the ten months ended October 31, 2002. Return on average common shareholders' equity and return on average assets for the year ended October 31, 2003 improved to 4.13%, and 0.21% respectively. The Corporation continues to be one of the most efficient in the financial industry with a non-interest expense ratio of 1.05% compared to the domestic banks' average of 2.60%, and total assets per employee at October 31, 2003 were $18.8 million compared to the domestic banks' average of $7.8 million per employee.

The chart below shows net earnings (losses) over the past five years. The Corporation incurred net losses in 2001 and 2002 when the provincial trust regulations, under which its subsidiary operated, changed. Since obtaining the bank licence in August 2002, profitability has returned.



In evaluating the Corporation's performance, management reviews reported net earnings as well as ratios relating to spread, credit quality, efficiency and return on average total assets, and return on average common shareholders' equity. For the 2003 fiscal year, management prepared a business plan setting out, among other objectives, targets for total assets, lending assets, net earnings and earnings per share. Targeted total assets at October 31, 2003, were $746 million, targeted lending assets were $547 million, targeted net earnings for the year were $987,000 and earnings per share for 2003 were targeted at $0.06 per share. Actual results for the year ended October 31, 2003, indicate these targets were exceeded.



Richard A. Coates (left)
Senior Analyst

Scott A. Mizzen (centre)
Manager, Real Estate Lending

Richard H.L. Jankura (right)
Senior Vice-President, Risk Management

SUMMARY OF QUARTERLY RESULTS
(teb)

(thousands of dollars)	2003				2002		
	Q4	Q3	Q2	Q1	Q3[3] (4 months)	Q2	Q1
Results of operations:							
Total interest income	$ 13,464	$ 11,806	$ 11,239	$ 11,310	$ 15,064	$ 11,693	$ 10,813
Yield on assets (%)	7.20%	6.53%	6.52%	6.30%	6.04%	5.98%	5.70%
Interest expense	9,360	9,361	9,294	10,177	13,841	10,584	10,734
Cost of funds (%)	5.01%	5.17%	5.39%	5.67%	5.55%	5.41%	5.66%
Net interest income	4,104	2,445	1,945	1,133	1,223	1,109	79
Spread (%)	2.19%	1.36%	1.13%	0.63%	0.49%	0.57%	0.04%
Provision for losses	364	98	39	-	835	96	(41)
Other income (charges)	67	289	371	509	(489)	79	47
Total revenue	3,807	2,636	2,277	1,642	(101)	1,092	167
Non-interest expenses	2,365	1,863	1,824	1,706	2,560	1,734	1,555
Income tax provision (recovery)	559	348	186	(1)	(834)	(33)	(435)
Net earnings (losses)	883	425	267	(63)	(1,827)	(609)	(953)
Earnings (loss) per share							
-basic	$ 0.07	$ 0.02	$ 0.02	$ (0.01)	$ (0.14)	$ (0.05)	$ (0.08)
-diluted	$ 0.07	$ 0.02	$ 0.02	$ (0.01)	$ (0.14)	$ (0.05)	$ (0.08)
Financial position							
Cash and securities	$ 180,625	$ 193,501	$ 210,147	$ 227,948	$ 289,625	$ 298,272	$ 300,279
Mortgages and loans	552,405	509,230	469,016	451,557	402,932	452,792	455,148
Equity investments and loans	2,673	7,992	8,151	8,064	8,033	10,815	13,570
Other assets	18,365	18,690	18,745	19,391	17,716	16,257	16,069
Total	$ 754,068	$ 729,413	$ 706,059	$ 706,960	$ 718,306	$ 778,136	$ 785,066
Deposits	$ 673,229	$ 648,136	$ 625,438	$ 621,089	$ 636,351	$ 658,717	$ 701,411
Other liabilities	5,865	7,200	6,969	12,486	8,267	43,358	6,980
Notes payable	34,186	34,186	34,186	34,186	34,186	34,186	34,186
Shareholders' equity	40,788	39,891	39,466	39,199	39,502	41,875	42,489
Total	$ 754,068	$ 729,413	$ 706,059	$ 706,960	$ 718,306	$ 778,136	$ 785,066

[3] As a result of the change of year end in 2002, the third quarter was for the four month period July 1 to October 31. In the third quarter, upon its principal subsidiary being granted its bank charter, the Corporation increased its general allowance for credit losses by $649,000.

NET INTEREST INCOME
(teb)

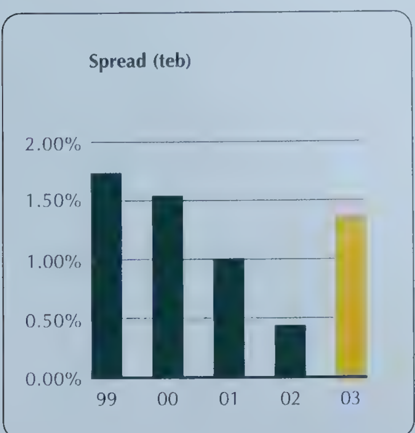
(thousands of dollars)	2003				2002			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest (10 months)	Interest Rate*
Assets								
Cash and securities	$ 235,125	31.94%	$ 13,129	5.58%	$ 293,688	40.46%	$ 9,967	4.07%
Loans	477,669	64.88%	33,331	6.98%	408,379	56.26%	26,412	7.76%
Taxable equivalent adjustment	–	–	1,359	–	–	–	1,191	–
Total interest earning assets	712,794	96.82%	47,819	6.71%	702,067	96.72%	37,570	6.42%
Other assets	23,393	3.18%	–	–	23,774	3.28%	–	–
Total assets	$ 736,187	100.00%	$ 47,819	6.50%	$ 725,841	100.00%	$ 37,570	6.21%
Liabilities and shareholders' equity								
Deposits and borrowings	$ 654,790	88.94%	$ 34,858	5.32%	$ 655,138	90.26%	$ 32,370	5.93%
Notes payable	34,186	4.64%	3,334	9.75%	34,326	4.73%	2,789	9.75%
Total interest bearing liabilities	688,976	93.59%	38,192	5.54%	689,464	94.99%	35,159	6.12%
Other liabilities	7,066	0.96%	–	–	1,436	0.20%	–	–
Shareholders' equity	40,145	5.45%	–	–	34,941	4.81%	–	–
Total liabilities and shareholders' equity	$ 736,187	100.00%	$ 38,192	5.19%	$ 725,841	100.00%	$ 35,159	5.81%
Net interest income			$ 9,627	1.31%			$ 2,411	0.40%

*The interest rates have been annualized for comparative purposes.

Net interest income is the difference between what is paid on funding sources, including deposits and notes payable, and what is earned on assets. Spread is net interest income as a percentage of average total assets. For the year ended October 31, 2003, net interest income increased by $7.2 million to $9.6 million from $2.4 million for the ten months ended October 31, 2002. This was primarily due to the following factors:

- Lower yielding excess treasury assets were reinvested during the year into higher yielding lending assets. Cash and securities averaged 32% of total average assets for the year ended October 31, 2003, compared to 40% for the ten months ended October 31, 2002.
- During the year, the Corporation booked new loans and leases totalling approximately $263 million with an average spread of 2.58%. As a percentage of total average assets, lending assets averaged 65% during the year ended October 31, 2003, compared to 56% for the 10 months ended October 31, 2002.
- Higher priced deposits booked in prior years matured during 2003 and were replaced in the current year with deposits with lower interest rates. The Corporation's cost of deposits averaged 5.32% for the year ended October 31, 2003, compared to 5.93% for the ten months ended October 31, 2002.

The chart below shows spread over the past five years. Spread in 2003, the first full year the Bank operated as a Schedule I bank, began returning to the Corporation's historical levels experienced prior to the change in provincial trust regulations, which negatively impacted the Corporation in 2001 and 2002.



In 2004, it is expected that spread for the year will be higher than that achieved during the 2003 fiscal year.

OTHER INCOME (CHARGES)

(thousands of dollars)	2003	2002 (10 months)
Administration fees	$ 219	$ 172
Gain on sale of equity investments	972	–
Income (loss) from equity investments	–	(160)
Provision for loss on securities	–	(475)
Trust services	–	82
Other miscellaneous	45	18
	$ 1,236	$ (363)

Other income (charges), which include all revenues not classified as net interest income, were $1.2 million for the year ended October 31, 2003, compared to a net charge of $363,000 for the ten months ended October 31, 2002. Notable changes from the previous period include:

- During 2003, equity investments originally acquired on the amalgamation of PacWest Ventures Ltd. on January 1, 2002, were sold resulting in a gain of $972,000.
- At October 31, 2002, $475,000 was recorded as a charge to other income relating to a provision for loss on securities.
- During 2002, the Corporation earned $82,000 in fees relating to trust services carried out by its trust subsidiary. These services can no longer be carried out under the bank charter.

PROVISION FOR CREDIT LOSSES

During the year ended October 31, 2003, the Corporation recorded provisions for credit losses totalling $501,000 compared to $890,000 recorded during the ten months ended October 31, 2002. Of the total of $501,000 recorded during the current year, $241,000 related to additions to the Corporation's general allowance for credit losses. Of the total of $890,000 recorded in 2002, $649,000 related to additions to the Corporation's general allowance for credit losses.

NON-INTEREST EXPENSES

(thousands of dollars)	2003	2002 (10 months)
Salaries and employee benefits	$ 3,775	$ 2,760
Premises and equipment		
Rent-premises	327	266
Depreciation	272	194
Other	342	177
	941	637
General and administrative		
Capital and business taxes	317	265
Insurance	151	97
Listing, sustaining fees and annual meeting	118	95
Marketing and business development	290	248
Professional fees and services	407	305
Postage and stationary	152	135
Telephone and communications	148	136
Travel	117	114
Other	1,342	1,057
	3,042	2,452
Total non-interest expenses	$ 7,758	$ 5,849
As a % of average assets	1.05%	0.97%
As a % of total revenue	71.42%	285.60%

Arnold E. Hillier (left)
Director

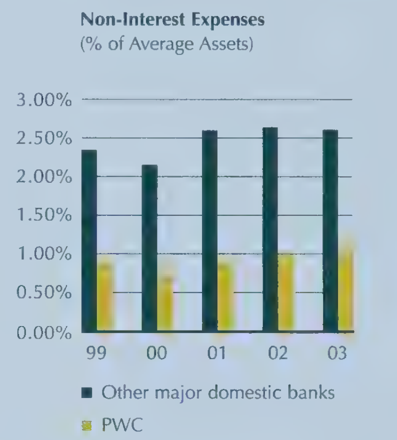
William T. Mitchell (right)
Director

Non-interest expenses for the year ended October 31, 2003 increased to $7.8 million from $5.9 million for the ten months ended October 31, 2002, an increase of $1.9 million. In addition to the current period being for 12 months versus 10 months in 2002, the primary reason for the overall increase in non-interest expenses was salaries and benefits which increased by $1 million partially due to the hiring of additional experienced bankers to assist in meeting the Corporation's objective of booking new loans and leases of approximately $250 million. As well, additional support staff were hired to accommodate the growth in the lending area. Other factors which contributed to the increase in non-interest expenses were increased professional and consulting fees, an increase in capital taxes as a result of higher levels of regulatory capital in the Corporation's bank subsidiary, and higher rental costs and depreciation charges on its leasehold improvements and equipment resulting from an expansion to the Corporation's premises.

Even with the increases in non-interest expenses, the Corporation is among the most efficient in the financial industry in Canada. Non-interest expenses as a percentage of average assets for 2003 were 1.05% compared to the industry average of 2.60%, and its assets per full time employee were approximately $18.8 million compared to the industry average of $7.8 million. The chart to the right shows non-interest expenses as a percentage of average assets for the past five years compared to the average of the major domestic banks.

Expectations for 2004 are that total non-interest expenses will remain constant at approximately $7.8 million, non-interest expenses as a percentage of average assets will decrease to approximately 0.90%, and the efficiency ratio will improve to approximately 48%. The improvement in the efficiency ratio would result from an expected increase in the Corporation's total revenue, while total non-interest expenses are expected to remain constant.

No significant capital expenditures are planned for the 2004 fiscal year.



STOCK-BASED COMPENSATION

Effective for stock options granted on or after November 1, 2003, the Corporation has chosen to account for stock-based compensation using the fair value method, which recognizes the fair value of the compensation costs in the consolidated financial statements.

The amount of compensation expense recorded in 2004 will depend on the specifics of the actual options granted and the variables used in the pricing model at the time of the grant(s).

INCOME TAXES

For the year ended October 31, 2003, the Corporation recovered $267,000 compared to a recovery of $2.5 million for the ten months ended October 31, 2002. The income tax recovery in 2003 consisted of a future income tax recovery of $395,000 and a current income tax provision of $128,000 representing federal large corporation's tax. While the Corporation had income before income taxes of $1.2 million, the main reason for the income tax recovery of $395,000 was an adjustment of $693,000 relating to non-taxable income from securities. Future income tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for income tax purposes. The Corporation's future income tax asset of $6.8 million at October 31, 2003, relates primarily to the tax benefit recorded on account of non-capital loss carry-forwards that have been recognized in the consolidated financial statements. The Corporation is confident that this amount will be recovered in future years as sufficient taxable income is generated.

The recovery for income taxes for the year ended October 31, 2003, was determined based on statutory federal and provincial tax rates aggregating 39%, as described in Note 12 to the consolidated financial statements. The Corporation does not expect its effective income tax rate in 2004 to change significantly from the rate in 2003 and that the adjustment relating to non-taxable income from securities in 2004 to be comparable to that in 2003.

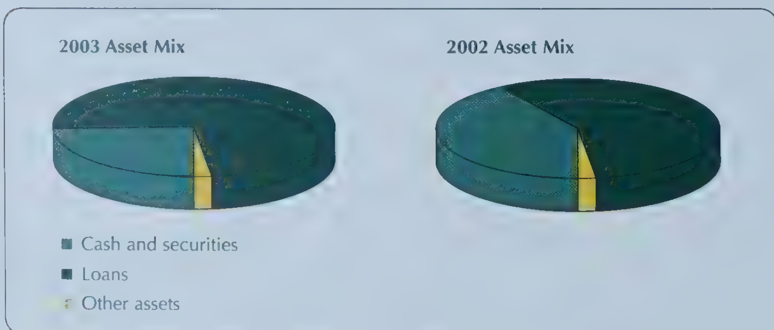
C. Scott Ritchie (left)
Director

Francis J.C. Newbould (right)
Director

BALANCE SHEET REVIEW

(thousands of dollars)	2003	Mix	2002	Mix	Growth 2003/2002
Cash resources	$ 38,322	5.08%	$ 42,150	5.87%	-9.08%
Securities:					
Issued by Canadian federal government, provinces or municipalities	36,579	4.85%	118,763	16.53%	-69.20%
Other securities	103,919	13.78%	126,297	17.58%	-17.72%
Accrued interest	1,805	0.24%	2,415	0.34%	-25.26%
Total cash and securities	180,625	23.95%	289,625	40.32%	-37.63%
Loans:					
Residential mortgages	136,342	18.08%	96,441	13.43%	41.37%
Business and government loans	304,527	40.38%	186,270	25.93%	63.49%
Personal loans	113,012	14.99%	121,833	16.96%	-7.24%
Allowance for credit losses	(1,476)	-0.20%	(1,612)	-0.22%	-8.44%
Total loans	552,405	73.26%	402,932	56.09%	37.10%
Equity investments and loans	2,673	0.35%	8,033	1.12%	-66.72%
Other assets	18,365	2.44%	17,716	2.47%	3.66%
Total assets	$ 754,068	100.00%	$ 718,306	100.00%	4.98%

The Corporation's assets increased to $754 million at October 31, 2003, from $718 million at October 31, 2002. The most significant area of growth was in the Corporation's primary market of business and government lending, which increased by 64% over that from a year ago. This area of lending consists of loans and leases to public sector borrowers, investment grade corporations and well established commercial enterprises. Total loans increased from $403 million to $552 million. The chart below provides a further comparison of the asset mix at October 31, 2003 and October 31, 2002.



Cash and Securities

Total cash and securities decreased from $290 million at October 31, 2002, to $181 million at October 31, 2003, a decrease of 38%. As a result, cash and securities made up 24% of total assets at October 31, 2003, compared to 40% of total assets at October 31, 2002. This reduction was consistent with the Corporation's 2003 goal to reinvest low spread treasury assets into higher spread loans and leases.

The Corporation holds treasury assets for liquidity management purposes and to earn investment income. Treasury assets are in the form of cash, securities issued or guaranteed by the Government of Canada or provinces or municipalities and equity and debt of Canadian investment grade corporations and other financial institutions. Equity investments in Canadian corporations and other financial institutions are in the form of preferred shares.

At October 31, 2003, cash and securities issued or guaranteed by the Government of Canada or provinces or municipalities accounted for $75 million or 41% of the securities portfolio compared to $161 million or 56% of the securities portfolio at October 31, 2002. At October 31, 2003, other securities, which consist of investments in equity and debt of Canadian investment grade corporations and other financial institutions, accounted for $104 million or 58% of cash and securities compared to $126 million or 44% of cash and securities at October 31, 2002. When the Corporation's subsidiary obtained a Schedule I bank charter, it was able to reinvest low spread government securities into higher spread producing corporate and other financial institution securities.

Loans

The Corporation places an emphasis on lending in markets that present lower than average credit risk and have lower than average administrative requirements. This includes providing financing directly and indirectly to public sector entities and high quality corporate entities. In addition, the Corporation finances real estate projects in Southwestern Ontario. This is a geographic region the Corporation's lenders have a great deal of experience in and are able to make well informed credit decisions. The Corporation's loan portfolio is categorized into residential mortgages, business and government loans, and personal loans. Total loans at October 31, 2003, increased to $552 million, compared to $403 million at October 31, 2002, an increase of 37%. This increase was consistent with the Corporation's goal for the year of redeploying its excess liquidity into new loans and leases.

Residential mortgages

The Corporation makes residential mortgages throughout its target market in Southwestern Ontario. In addition, from time to time, the Corporation purchases federal CMHC insured mortgage pools. Residential mortgage lending increased to $136 million at October 31, 2003, from $96 million at October 31, 2002, an increase of 41%.

Business and government loans

Business and government loans consist of direct and indirect financing of federal, provincial, territorial and municipal governments, as well as hospitals, universities, community colleges and school boards. This financing may take the form of leases. This category also includes real estate construction lending in Southwestern Ontario, which focuses on providing first mortgage financing for residential development projects in addition to multi-residential and commercial mortgages. At October 31, 2003, business and government loans totalled $304 million compared to $186 million at October 31, 2002, an increase of 64%.

Personal loans

This category consists primarily of financing of immigrant investments in provincially and territorially sponsored immigrant investment funds. These loans are classified as personal loans as the borrower is the immigrant investor. The Corporation views these loans as lower risk since they are well secured by notes issued by the various funds, which have strict investment criteria. At October 31, 2003, personal loans totalled $113 million, a decrease of $9 million or 7% from the total outstanding at October 31, 2002 of $122 million. Some of the immigrant investment funds began maturing during fiscal 2003 and few new fundings are taking place. Little, if any, growth is anticipated in this category in fiscal 2004.

Impaired loans

The total of impaired loans and foreclosed real estate at October 31, 2003, was $6 million or 1.1% of total loans, a reduction from $10 million or 2.5% of total loans at October 31, 2002. This is in comparison to the other banks' average of 1.29% of total loans. Of the $6 million of impaired loans and foreclosed real estate at October 31, 2003, $4.6 million was represented by a loan acquired through the amalgamation with PacWest Ventures Ltd.. Subsequent to October 31, 2003, the securing property was sold for approximately its book value to a third party with partial payment being a new first mortgage on the property. This reduced the level of gross impaired loans to $1.4 million.

Equity Investments and Loans

Equity investments and loans decreased to $3 million at October 31, 2003, from $8 million at October 31, 2002. These assets were acquired through the amalgamation with Pacwest Ventures Ltd. on January 1, 2002 and consist of investments in real estate development projects. They will continue to be liquidated, with the proceeds used to provide additional capital to the Corporation's bank subsidiary to fuel additional growth.

Deposits

(thousands of dollars)	2003	Mix	2002	Mix	Growth 2003/2002
Savings	$ 21,336	3.17%	$ 18,706	2.94%	14.06%
Term Deposits	651,893	96.83%	617,645	97.06%	5.54%
Total	$ 673,229	100.00%	$ 636,351	100.00%	5.80%

Deposits increased from $636 million at October 31, 2002, to $673 million at October 31, 2003, an increase of 6%. Of the total deposits outstanding at October 31, 2003, $21 million or 3% of total deposits are demand deposits with the remainder being term deposits. This compares with demand deposits of $18 million or 3% of total deposits at October 31, 2002. Deposits consist of CDIC insured GICs and daily interest savings accounts and are raised through a diversified network of deposit brokers across Canada. The ability to raise CDIC insured deposits through an efficient broker network contributes to the lower operating costs, which enable the Corporation to provide competitive interest rates to its customers.

Shareholders' Equity

Shareholders' equity increased to $41 million at October 31, 2003, from $40 million at October 31, 2002. The increase resulted primarily from the earnings in the current year of $1,512,000 reduced by dividends of $240,000 paid on the Corporation's preferred shares.

Off-Balance Sheet Financial Instruments

The Corporation's off-balance sheet financial instruments consist primarily of interest rate swap agreements entered into for the purpose of limiting exposure to changes in interest rates and credit related commitments representing the maximum amount of additional credit that the Corporation could be obliged to extend. The notional amounts of interest rate swap agreements outstanding at October 31, 2003 totalled $123 million and outstanding credit related commitments at the same date totalled $86 million.

ASSETS TO CAPITAL RATIO

(Based on the subsidiary Pacific & Western Bank of Canada)

(thousands of dollars)	2003	2002
Total assets (on and off balance sheet)	$ 738,328	$ 704,188
Total regulatory capital	63,637	58,875
Assets to capital ratio	11.60	11.96

The Corporation's primary subsidiary, Pacific & Western Bank of Canada, operates as a bank under the *Bank Act* (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). The Bank's ability to accept deposits is limited by its permitted assets to capital multiple. This is defined as the ratio of regulatory capital to the total assets of the Bank. The Bank's maximum assets to capital multiple at October 31, 2003 was authorized at 12.5 times. At October 31, 2003, the Bank's assets to capital ratio was 11.60 compared to 11.96 at October 31, 2002. This compares to the other major banks' average assets to capital ratio of 16.36. On February 17, 2004, the Bank's authorized assets to capital multiple was increased to 15 times.

RISK BASED CAPITAL RATIO

(Based on the subsidiary Pacific & Western Bank of Canada)

(thousands of dollars)	2003		2002	
	Asset Balance	Risk Weighted Balance	Asset Balance	Risk Weighted Balance
Balance sheet assets:				
Cash resources	$ 38,195	$ 3,401	$ 41,029	$ 8,097
Securities	142,303	106,943	247,475	124,710
Loans	540,594	369,033	394,375	242,461
Other assets	18,035	18,035	16,882	16,882
	739,127	497,412	699,761	392,150
Credit Instruments:				
Letters of credit	10,500	5,250	4,427	2,213
Commitments to extend credit	75,006	5,016	75,518	4,044
Derivative Financial Instruments (notional amounts):				
Interest rate contracts	122,559	161	287,000	317
Total risk weighted assets		507,839		398,724
Regulatory capital		63,637		58,875
Risk based capital ratio		12.53%		14.77%

OSFI requires banks to measure capital adequacy in accordance with guidelines for determining risk adjusted capital and risk weighted assets including off-balance sheet credit instruments. Based on the deemed credit risk for each type of asset, a weighting of 0% to 100% is assigned. Regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%. However, in order to be considered well capitalized, the Corporation believes it should have a minimum risk based capital ratio of at least 10%.

At October 31, 2003, the Bank's total regulatory capital increased to $64 million from $59 million at October 31, 2002 as a result of earnings in the Bank and an additional $3 million of regulatory capital invested in the Bank by its parent in the form of subordinated notes. The Bank's total risk weighted assets at October 31, 2003 increased to $508 million from $399 million at October 31, 2002, resulting in the risk based capital ratio decreasing from 14.77% at October 31, 2002, to 12.53% at October 31, 2003, still well in excess of the minimum regulatory requirement of 8% and the Corporation's practice to maintain a minimum of 10%.

Alexander Mikalachki (left)
Director

David A. Bratton (right)
Director

RISK MANAGEMENT

Risk management involves the identification, ongoing assessment, managing and monitoring of material risks that could adversely affect the Corporation. The Corporation is exposed to credit risk, liquidity risk, market risk, and operational risk.

Senior management is responsible for establishing the framework for identifying risks and developing appropriate risk management policies and frameworks. The Corporation's Board of Directors, either directly or indirectly through its committees, reviews and approves corporate policies, including specific reporting procedures. This enables them to monitor ongoing compliance with policies, delegate limits and review management's assessment of risk in its major risk taking activities. An independent internal auditor is employed to provide a continuing review of policies and procedures to ensure they are appropriate, effective and being followed and that adequate controls are in place in order to mitigate risk to acceptable levels. The internal auditor reports directly to the Audit Committee of the Board of Directors.

Credit Risk

Credit risk is the potential for loss due to the failure of a counterparty or borrower to meet its financial obligations. The Corporation manages its credit risk using policies which consist of approval procedures and limits on loan amounts, portfolio concentration, geographic concentration, asset category, loans to any one entity and associated groups, a risk rating policy that provides for risk rating each asset in its total asset portfolio, and early recognition of problem accounts (watch list accounts) with action plans for each account. Additionally, credit risk is managed with an emphasis on lower risk assets that include public sector borrowers, investment grade corporations and well established commercial enterprises.

A Risk Review Committee, comprised entirely of unrelated directors, performs the following functions related to credit risk:

- Recommends policies governing management of credit risk to the Board of Directors for approval and reviews credit risk policies on an ongoing basis to ensure they are prudent and appropriate given possible changes in market conditions and corporate strategy.
- Ensures that procedures and controls for managing credit risk are in place.
- Concurs with credits exceeding the levels delegated to management, prior to commitment.
- Reviews, on a regular basis, watch list accounts, impaired loans and accounts that have gone into arrears.

Liquidity Risk

Liquidity risk is the risk of being unable to honour all cash outflow obligations as they become due. The Corporation has established policies to ensure that its cash outflows and inflows are closely matched and that its sources of deposits are diversified between funding sources and over a wide geographic area. The Risk Review Committee recommends policies governing management of liquidity risk to the Board for approval and reviews liquidity policies on an ongoing basis. It receives and reviews quarterly securities portfolio reports and liquidity risk management reports from management relating to its liquidity position. Additionally, an Asset Liability Committee, consisting of members of senior management, exists which monitors liquidity risk, reviews compliance with policies and discusses strategies in this area.

(thousands of dollars)	2003	2002
Cash resources	38,322	42,150
Securities	140,498	245,060
Total liquid assets	178,820	287,210
Total assets	754,068	718,306
Liquid assets as a percentage of total assets	23.71%	39.98%

At October 31, 2003, total liquid assets consisting of cash and securities decreased to $179 million or 24% of total assets from $287 million or 40% of total assets at October 31, 2002, a decrease of 37%. This reduction was consistent with the Corporation's goal for the current year of reinvesting its excess treasury assets into higher spread loans and leases. The Corporation expects to continue this strategy, reducing its treasury assets to approximately 20% of total assets by October 31, 2004. The Corporation's policies require that no less that 15% of its total assets be in the form of liquid assets.

Barbara E.M. Hale (left)
Vice-President, Compliance, General Counsel and Secretary

John W. Asma (right)
Vice-President and Treasurer

Market Risk

Market risk is the risk of a loss resulting from changes in interest rates, foreign exchange rates, and market prices and volatilities that arise from the Corporation's funding and investment activities. The Corporation's principal risk arises from interest rate risk as the Bank does not undertake foreign exchange or trading activities.

Interest rate risk

Interest rate risk is the risk that a movement in interest rates could negatively impact spread, net interest income and the economic value of assets, liabilities and shareholders' equity. The Corporation manages interest rate risk by employing a number of methods including income simulation analysis, interest rate sensitivity gap and duration analysis and the use of interest swap agreements to assist in matching cash inflows and outflows. Management prepares regular reports to the Board to allow for ongoing monitoring of the Corporation's interest rate risk position.

The Asset Liability Committee reviews the results of these analyses on a monthly basis and monitors compliance with limits set by corporate policy. The Bank's policy is to maintain the matching of its cash inflows and outflows so that (i) in any 12 month period, a 100 basis point change in rates across the entire yield curve would not have an impact greater than $1,500,000 and (ii) in any 60 month period, a 100 basis point change in rates across the entire yield curve would not have an impact greater than $3,000,000. As well, the policy indicates that at no time shall the duration difference between the Bank's assets and liabilities exceed 6 months. The interest rate risk position and results of the Bank's duration analysis are presented in the table below.

(Based on the subsidiary Pacific & Western Bank of Canada)

(thousands of dollars)	2003		2002	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Maximum interest exposure during a 12 month period	(168)	168	455	(455)
Maximum interest exposure during a 60 month period	(1,859)	1,867	235	(242)
Duration difference between assets and liabilities (months)	2.0		2.0	

Operational Risk

Operational risk is a potential loss resulting from a breakdown in systems, procedures, human error, disasters or criminal activity. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory penalties. The Corporation's strategy to minimize and manage operational risk includes:

- Comprehensive internal control policies which provide clear direction to all areas of its business and employees and establishes accountability and responsibilities to identify, assess, appropriately mitigate and control operational risk.
- Hiring of banking professionals with many years of related experience.
- Independent internal audit function, reporting directly to the Audit Committee, whose mandate is to ensure that operational risk is mitigated to prudent levels.
- Regular meetings of a Risk Review Management Committee comprised of senior management responsible for all operational areas, whose mandate it is to review major risk areas of the Corporation, monitor risk reports and recommend policies to the Board regarding risk management reporting and monitoring.
- Use of technology through automated systems with built in controls.
- Maintenance of a compliance monitoring program.
- Continual review and upgrade of systems and procedures.

Peter R. Lockyer (left)
Chairman of the Board

David R. Taylor (right)
President &
Chief Executive Officer

FUTURE OUTLOOK

The Corporation expects to continue to grow its assets in fiscal 2004 to approximately $1 billion, an increase of 34%. This growth is anticipated to be provided for by additional regulatory capital being injected into the Bank and an increase in the Bank's authorized assets to capital multiple. This will enable the Corporation to increase its deposit base to fund additional loans and treasury assets. The most significant area of growth is expected to be in loans and leases, which are expected to increase by 35%. Treasury assets are expected to increase by approximately 25%. The Corporation expects to obtain its growth in loans and leases from public sector borrowers, investment grade corporations and well established commercial enterprises, these being market niches that are not well served by larger financial institutions.

Spread for fiscal 2004 is targeted to be approximately 1.80% compared to actual spread of 1.31% for fiscal 2003. The Corporation is targeting a return on average common equity of 11.50% for fiscal 2004 compared to the actual return on average common equity of 4.13% for fiscal 2003.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The statements in this management's discussion and analysis which relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks implicated by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. There is no undertaking to update any forward-looking statement that is contained in this management's discussion and analysis or made from time to time by the Corporation.

CORPORATE

GOVERNANCE PRACTICES

INTRODUCTION

Maintenance of an effective internal corporate governance framework is a priority for Pacific & Western. The fundamental duty of the Board of Directors is the stewardship of the Corporation; to supervise the management of the business with the objective of maximizing shareholder value. The Bank carries out the main business of the Corporation, comprising approximately 98% of its assets. The Bank's Board of Directors and its committees assist in carrying out and overseeing the corporate governance for the Corporation.

Our relationship with our shareholders is maintained through our Transfer Agent and Registrar, Computershare Trust Company of Canada and other financial intermediaries and, in particular, through our Shareholders' Meetings. Shareholders may communicate directly with us by contacting either our Vice President, Public and Government Relations, Director of Investor Relations or Computershare.

The Management Proxy Circular issued in connection with our 2004 Annual Meeting contains a comparison of our corporate governance procedures against the Toronto Stock Exchange's guidelines for effective corporate governance. The Management Proxy Circular also provides information on our Directors including their background, meeting attendance records, shareholdings, and other information.

GENERAL RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Boards of the Corporation and the Bank are responsible for governance issues. The following is a summary of some of the most important functions which the Boards perform:

- Approve a Mandate for the Board of Directors and for the Chair of the Board
- Appoint a Chair of the Board who is an outside director and independent of management
- Appoint officers, including the Chief Executive Officer, and regularly evaluate the effectiveness and performance of such officers in managing the operations of the Corporation and the risks to which it is exposed
- Approve the compensation of the Chief Executive Officer
- Review the Management Succession Plan and the Human Resources Plan
- Oversee employee compensation plans to ensure that they are consistent with sustainable achievement of business objectives, the prudent management of operations and the risks to which the Corporation is exposed
- Review systems plans and disaster recovery plans
- Review compliance reports
- Establish standards of business conduct and ethical behaviour for directors, officers and other personnel and obtain regular assurance that there is an ongoing, appropriate and effective process for ensuring adherence to those standards
- Establish Board committees and approve their mandates
- Approve all major changes to the organizational structure
- Establish procedures for the approval of all significant acquisitions and major contracts and approve all significant acquisitions and major contracts out of the ordinary course of business
- Approve all policies, including those pertaining to corporate disclosure and communications, risk management, liquidity and funding management, and capital management
- Oversee communications with shareholders, including approving the annual financial statements, annual information form and shareholders' meeting materials
- Establish the business objectives and consider and approve the business strategy and business plans to ensure they remain appropriate and prudent in light of the business and economic environment, resources and results
- Evaluate actual and operating results against forecast results in light of the business objectives, business strategy and business plans
- Receive reports from each of the Board Committees, at least annually
- Declare dividends
- Review and monitor compliance with the Canada Deposit Insurance Corporation's Standards of Sound Business and Financial Practices
- Approve the appointment of the Internal Auditor
- Ensure that the audit/inspection function monitors the effectiveness of the organizational and procedural controls.

In order to discharge the Board's responsibilities, certain governance issues have been delegated to committees of the Board. Directors may engage outside consultants as they see fit, subject to the approval of the Board.

Dale E. Creighton (left)
Director

Kingsley G. Allaster (right)
Director

BOARD COMMITTEES

Audit Committees

Both the Corporation and the Bank have Audit Committees that oversee financial reporting procedures and ensure that adequate internal controls are in place over accounting and financial reporting systems. The Committees are comprised entirely of unrelated directors and perform the following functions:

- Review the annual financial statements and such other statements, documents or returns as regulatory requirements require
- Ensure management implements and maintains appropriate internal control procedures
- Review, at least annually, the policies and procedures with respect to capital management, liquidity and funding management, money laundering, and internal control
- Review management reports on operations and management information systems
- Review arrangements, if any, involving outsourcing of significant operations
- Meet with the external auditors on a regular basis
- Review and approve expenditures to the external auditor, in accordance with policy
- Monitor amounts paid to the external auditor and other accounting firms
- Approve the mandate of the Internal Auditor
- Approve annually a comprehensive risk-based audit plan as submitted by the Internal Auditor
- Meet with the Internal Auditor and management to discuss the effectiveness of the internal control procedures
- Receive, directly from the Internal Auditor, all risk-based audit reports and follow-up reports on the status of Management's implementation of recommendations.

Members (Pacific & Western Credit Corp.): *Kingsley G. Allaster (Chair)*, Dale E. Creighton, Arnold E. Hillier, Peter R. Lockyer*
Members (Bank): *William T. Mitchell (Chair), Dale E. Creighton, Arnold E. Hillier, Peter R. Lockyer*

*Kingsley G. Allaster will be retiring at the Annual Shareholders' Meeting and will be replaced as Chair by William T. Mitchell.

Human Resources & Corporate Governance Committees

Both the Corporation and the Bank have Human Resources & Corporate Governance Committees. The Committees are comprised entirely of unrelated directors and perform the following functions:

- Set criteria for the selection of directors, recommend Board candidates for election as directors, and assess the level and nature of directors' fees
- Review and assess the performance of the Board of Directors, committees of the Board and individual directors
- Develop and enhance the approach to governance issues
- Review and assess annually a detailed list of the duties and responsibilities of the Chief Executive Officer
- Ensure that the Chairman of the Board undertakes an annual assessment of the performance of the Chief Executive Officer
- Review officer appointments to ensure that there are experienced and skilled personnel to carry out the business activities in a prudent manner
- Conduct an annual review of the Human Resource Policies and the Management Succession Plan
- Ensure that detailed job descriptions are maintained for all employees.

Members (Pacific & Western Credit Corp.): *David A. Bratton (Chair), Peter R. Lockyer, Alexander Mikalachki**
Members (Bank): *David Bratton (Chair), Peter R. Lockyer, Dale E. Creighton*

*Alexander Mikalachki will be retiring at the Annual Shareholders' Meeting and will be replaced on the Committee by Dale E. Creighton.

Patricia L. Clark (left)
Manager, Agent Services

Alvin D. Austin (right)
Director, Information Systems

Risk Review Committee

The Risk Review Committee of the Bank is comprised entirely of unrelated directors and performs the following functions:

- Recommends policies governing management of credit risk, market risk, structural risk and liquidity and funding management to the Board for approval and reviews them on an ongoing basis to ensure that they are prudent and appropriate given possible changes in market conditions and corporate strategy
- Ensure that procedures, controls and processes for managing credit risk, market risk, structural risk and liquidity and funding management are in place
- Concurs with credits exceeding the levels delegated to Management, prior to commitment.

Members (Bank): *Douglas W. Gough (Chair), Peter R. Lockyer, Arnold E. Hillier*

Conduct Review Committee

The Conduct Review Committee of the Bank is comprised entirely of unrelated directors and performs the following functions:

- Reviews and approves related party transactions, in accordance with policy
- Deals with matters of conflict of interest
- Deals with matters of harassment in the work place
- Deals with matters regarding customer complaints, should any arise
- Monitors compliance with the corporate Code of Conduct
- Regularly reports to the Board of Directors on matters reviewed by the Committee.

Members (Bank): *C. Scott Ritchie (Chair), David A. Bratton, Francis J.C. Newbould*

Corporate Governance Achievements

Pacific & Western continues to review and improve its corporate governance practices. Certain of our corporate governance initiatives, achieved through cooperation among management and the Board of Directors, are as follows:

- Implementation of a compliance management program
- Completed a comprehensive, company wide risk-based assessment
- Approved a comprehensive risk-based Internal Audit plan for 2004
- Completed formal assessments in 2003 of the Board, Committees of the Board, individual directors, and the President & C.E.O.
- Reviewed and updated the succession plan for senior management
- Reviewed and revised the Human Resources Plan for 2004
- Reviewed and approved the Business Plan for 2004
- Development of a Risk Management Dashboard Report, which graphically depicts key ratios.

MANAGEMENT'S RESPONSIBILITY FOR

FINANCIAL REPORTING

The consolidated financial statements of Pacific & Western Credit Corp. were prepared by management, which is responsible for the integrity and fairness of the data presented, including amounts which must of necessity be based on estimates and judgements. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. Financial information appearing throughout this Annual Report is consistent with the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained.

The Corporation's principal subsidiary, Pacific & Western Bank of Canada, is a federally regulated bank. The Superintendent of Financial Institutions Canada examines and enquires into the business and affairs of the Bank, to the extent deemed necessary, to satisfy himself that the provisions of the Bank Act, having reference to the safety of the interests of depositors and creditors of the Bank, are being duly observed and that the Bank is in a sound financial condition.

The board of directors oversees management's responsibilities for financial reporting through an Audit Committee. The Audit Committee reviews the consolidated financial statements of the Corporation and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the Corporation's existing internal control procedures and advising the directors on auditing matters and financial reporting issues.

KPMG LLP, independent auditors appointed by the shareholders of the Corporation upon the recommendation of the Audit Committee, have examined the consolidated financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of the system of internal controls.

David R. Taylor
President & Chief Executive Officer

Barry D. Walter, C.A.
Chief Financial Officer

November 21, 2003

AUDITOR'S REPORT TO

THE SHAREHOLDERS

We have audited the consolidated balance sheets of Pacific & Western Credit Corp. as at October 31, 2003 and 2002 and the consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended October 31, 2003 and the ten months ended October 31, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the year ended October 31, 2003 and the ten months ended October 31, 2002 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Saskatoon, Canada

November 21, 2003

CONSOLIDATED

BALANCE SHEETS

October 31, 2003 and 2002

(thousands of dollars)	2003	2002
Assets		
Cash resources	$ 38,322	$ 42,150
Securities (note 3)	142,303	247,475
Loans, net of allowance for credit losses (note 4)	552,405	402,932
Equity investments and loans (note 5)	2,673	8,033
Other assets (note 6)	18,365	17,716
	$ 754,068	$ 718,306
Liabilities and Shareholders' Equity		
Deposits (note 7)	$ 673,229	$ 636,351
Notes payable (note 8)	34,186	34,186
Other liabilities (note 9)	5,865	8,267
	713,280	678,804
Shareholders' equity:		
Share capital (note 10)	36,396	36,382
Retained earnings	4,392	3,120
	40,788	39,502
	$ 754,068	$ 718,306

See accompanying notes to consolidated financial statements.

On behalf of the Board:

D. R. Taylor
Director

Peter R Lorliga
Director

CONSOLIDATED

STATEMENTS OF OPERATIONS

Year ended October 31, 2003 and ten months ended October 31, 2002

(thousands of dollars, except per share amounts)	2003	2002
Interest income:		
Loans	$ 31,846	$ 25,843
Securities	13,129	9,967
Loan fees	1,485	569
	46,460	36,379
Interest expense:		
Deposits and other	34,858	32,370
Notes payable	3,334	2,789
	38,192	35,159
Net interest income	8,268	1,220
Provision for credit losses (note 4)	501	890
Net interest income after provision for credit losses	7,767	330
Other income (charges)	1,236	(363)
Net interest and other income	9,003	(33)
Non-interest expenses:		
Salaries and benefits	3,775	2,760
General and administrative	3,042	2,452
Premises and equipment	941	637
	7,758	5,849
Earnings (loss) before income taxes	1,245	(5,882)
Income tax recovery (note 12)	267	2,493
Net earnings (loss)	$ 1,512	$ (3,389)
Basic earnings (loss) per share (note 13)	$ .10	$ (.27)
Diluted earnings (loss) per share (note 13)	$ .10	$ (.27)

See accompanying notes to consolidated financial statements.

CONSOLIDATED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended October 31, 2003 and ten months ended October 31, 2002

(thousands of dollars)	2003	2002
Common shares (note 10):		
Balance, beginning of period	$ 32,794	$ 23,871
Proceeds of shares issued	26	20
Shares issued on amalgamation	–	10,122
Shares repurchased for cancellation	(12)	(410)
Share issue costs, net of tax recovery	–	(809)
Balance, end of period	$ 32,808	$ 32,794
Class A preferred shares (note 10):		
Balance, beginning of period	$ 3,545	$ –
Shares issued on amalgamation	–	3,545
Balance, end of period	$ 3,545	$ 3,545
Warrants (note 10):		
Balance, beginning of period	$ 43	$ –
Cost of warrants granted in current period	–	43
Balance, end of period	$ 43	$ 43
Retained earnings:		
Balance, beginning of period	$ 3,120	$ 6,509
Net earnings (loss)	1,512	(3,389)
Dividends paid	(240)	–
Balance, end of period	$ 4,392	$ 3,120

See accompanying notes to consolidated financial statements.

CONSOLIDATED

STATEMENTS OF CASH FLOWS

Year ended October 31, 2003 and ten months ended October 31, 2002

(thousands of dollars)	2003	2002
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 1,512	$ (3,389)
Items not involving cash:		
Provision for credit losses	501	890
Cost of warrants granted	–	43
Equity losses	–	160
Provision for loss on securities	–	475
Future income tax recovery	(395)	(2,587)
Change in other assets and liabilities	(2,656)	3,835
	(1,038)	(573)
Investing:		
Securities	105,172	(650)
Loans	(149,974)	23,250
Equity investments and loans	5,360	3,670
	(39,442)	26,270
Financing:		
Deposits	36,878	(37,574)
Proceeds of common shares issued	26	20
Common shares repurchased for cancellation	(12)	(410)
Share issue costs	–	(1,096)
Dividends paid	(240)	–
	36,652	(39,060)
Decrease in cash resources	(3,828)	(13,363)
Cash resources, beginning of period	42,150	55,513
Cash resources, end of period	$ 38,322	$ 42,150
Supplementary cash flow information:		
Interest paid during the period	$ 39,589	$ 36,869
Income taxes paid during the period	$ 153	$ 64

See accompanying notes to consolidated financial statements.

FINANCIAL STATEMENTS

Year ended October 31, 2003 and ten months ended October 31, 2002

Pacific & Western Credit Corp. (the "Corporation"), through its subsidiaries, is involved in the business of providing financial services. Pacific & Western Bank of Canada (PWB), its principal subsidiary, operates as a bank under the Bank Act (Canada) pursuant to letters patent issued August 1, 2002. In conjunction with PWB obtaining the federal bank licence, the Corporation changed its fiscal year end in 2002 from December 31 to October 31.

1. SIGNIFICANT ACCOUNTING POLICIES:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting principles used in the preparation of these consolidated financial statements are summarized below:

(a) Investments:

The Corporation holds 100% of the common shares of Pacific & Western Bank of Canada, Arctic Financial Ltd., PW Capital Inc. and Pacific & Western Public Sector Financing Corp. The consolidated financial statements include the accounts of these subsidiaries.

All significant intercompany accounts and transactions have been eliminated.

Investments in which the Corporation exercises significant influence are accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the Corporation's share of post-acquisition earnings of the associated corporation less dividends received.

(b) Cash resources:

Cash resources include government treasury bills and deposits with Canadian chartered banks with less than ninety days to maturity from the date of acquisition, net of cheques and other items in transit.

(c) Securities:

The Corporation holds securities for investment purposes with the original intention of holding the securities to maturity or until market conditions render alternative investments more attractive. Securities are stated at amortized cost. The amortization of premiums or discounts is included in income over the period to maturity.

Any impairment in their underlying value other than a temporary impairment is recorded as a charge to income in the year in which it occurs.

Gains and losses on disposal of securities are included in income in the year realized.

(d) Loans:

Loans are stated at cost less an allowance for credit losses.

Interest income on loans is recorded on the accrual basis until such time as the loan is classified as impaired. An impaired loan is a loan where there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. An uninsured loan is classified as impaired when scheduled payments are more than ninety days in arrears. An insured loan is classified as impaired when scheduled payments are more than one hundred and eighty days in arrears. When a loan is classified as impaired, accrual of interest on the loan ceases, and the carrying amount of the loan is reduced to its estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows, if they can be reasonably estimated, using the effective interest rate inherent in the loan. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the loan is reduced to its estimated net realizable value based on either i) the fair value of any security underlying the loan, net of expected costs of realization, or ii) observable market prices for the loan. As long as the loan remains classified as impaired, interest received will be credited to the carrying value of the loan. A loan will be returned to accrual status only when the timely collection of both principal and interest is reasonably assured and all arrears payments of principal and interest are brought current.

Loan fees in excess of estimated administrative costs are recognized in income over the appropriate lending or commitment period.

Real estate acquired as settlement of loans is stated at cost less an allowance for losses.

(e) Allowance for credit losses:

The Corporation maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all credit related losses in its portfolio of both on and off-balance sheet items. The allowance for credit losses consists of specific provisions, being provisions against specific credit exposures determined on an item-by-item basis; and a general provision for losses which have occurred but where such losses cannot be determined on an item-by-item basis.

(f) Deferred financing charges:

Deferred financing charges related to notes payable are being amortized on a straight-line basis over the term of the related debt. The amortization of these charges is included with interest expense in the Consolidated Statements of Operations.

(g) Premises and equipment:

Equipment and leasehold improvements on premises are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of assets not exceeding ten years.

(h) Income taxes:

The Corporation follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years when temporary differences are expected to be recovered or settled.

(i) Stock-based compensation:

The Corporation has a stock option plan that is described in note 11. No compensation expense is recognized for this plan when qualifying stock options are granted to employees. Any consideration paid by employees on exercise of stock options is credited to common shares. Warrants granted to non-employees are described in note 10. The Corporation accounts for grants of warrants to non-employees in accordance with the fair value based method of accounting for stock-based compensation.

(j) Financial instruments:

The amounts recorded in the balance sheet for cash resources and other liabilities approximate fair value due to the short-term maturity of these instruments. Fair values for interest bearing financial assets and liabilities are disclosed in note 16.

Interest rate swap agreements are entered into for asset liability management ("ALM") purposes. These contracts are designated as hedges and are accounted for on the accrual basis. Interest expense and gains/losses are recognized, as appropriate, over the hedged period.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(k) Risk management:

Credit risk

The Corporation manages its credit risk using policies which consist of approval procedures and limits on loan amounts, portfolio concentration, geographic concentration, asset category, loans to any one entity and associated groups and a risk rating policy that provides for risk rating each asset in its total asset portfolio. Additionally, credit risk is managed with an emphasis on lower risk assets that include public sector borrowers, investment grade corporations and well-established commercial enterprises. A Risk Review Committee monitors compliance with corporate policy.

Interest rate risk

The operations of the Corporation are subject to risk of interest rate fluctuations to the extent that cash flows on interest-earning assets and interest-bearing liabilities differ. The Corporation manages interest rate risk by employing a number of methods, including income simulation analysis, interest rate sensitivity gap and duration analysis and the use of interest rate swap agreements to assist in matching cash inflows and outflows. An Asset Liability Committee reviews the results of these analyses and monitors compliance with limits set by corporate policy.

2. RECENTLY ISSUED STANDARDS:

Hedging relationships:

Accounting Guideline 13 ("AcG-13") establishes new criteria for hedge accounting which applies to all hedging relationships in effect on or after July 1, 2003. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedge.

The Corporation will adopt the new Guideline for its fiscal year beginning on November 1, 2003 with no material impact on its consolidated financial statements.

Impaired loans:

In March 2003, the CICA amended Handbook Section 3025, Impaired Loans. This amendment requires that assets acquired when the Corporation forecloses on a loan should be initially measured at fair value, or fair value less cost to sell if specified criteria are met.

This amendment is effective for fiscal years beginning on or after May 1, 2003. The Corporation adopted this amendment for all assets foreclosed on or after this date.

Guarantees:

In January 2003, the CICA issued Accounting Guideline AcG-14, Disclosure of Guarantees, which clarifies disclosure requirements for certain guarantees. This new guideline applies generally to contracts that require payments contingent on certain specified types of future events.

The Corporation adopted the new Guideline for the current year.

3. SECURITIES:

(a) Portfolio analysis:

(thousands of dollars)	2003	2002
Securities issued or guaranteed by:		
Canadian federal government	$ 17,499	$ 24,500
Canadian provinces	10,171	77,528
Canadian municipalities	8,909	15,358
Government insured mortgage-backed securities	–	1,377
Canadian corporate debt	64,351	75,991
Canadian corporate equity	39,568	50,306
	140,498	245,060
Accrued interest	1,805	2,415
	$ 142,303	$ 247,475

(b) Maturities and yields:

(thousands of dollars) Maturity dates	2003	Yield	2002	Yield
Within 3 months	$ 40,781	4.22%	$ 73,801	4.86%
3 months - 1 year	27,382	6.38%	24,940	6.46%
1 year - 2 years	42,504	5.86%	70,335	6.49%
2 years - 5 years	20,379	6.56%	46,419	6.40%
Over 5 years	9,452	6.39%	29,565	5.72%
	$ 140,498	5.62%	$ 245,060	5.89%

Average effective yields are based on book values and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts.

(c) Unrealized gains and losses on investment securities:

(thousands of dollars)	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	2003 Market Value	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	2002 Market Value
Securities issued or guaranteed by:								
Canadian federal government	$ 17,499	$ –	$ (136)	$ 17,363	$ 24,500	$ 55	$ (206)	$ 24,349
Canadian provinces	10,171	106	(89)	10,188	77,528	87	(528)	77,087
Canadian municipalities	8,909	150	–	9,059	15,358	109	(167)	15,300
Government insured mortgage-backed securities	–	–	–	–	1,377	–	(70)	1,307
Canadian corporate debt	64,351	838	(21)	65,168	75,991	1,023	(250)	76,764
Canadian corporate equity	39,568	927	(1,077)	39,418	50,306	142	(4,315)	46,133
Accrued interest	1,805	–	–	1,805	2,415	–	–	2,415
	$ 142,303	$ 2,021	$ (1,323)	$ 143,001	$ 247,475	$ 1,416	$ (5,536)	$ 243,355

4. LOANS:

(a) Portfolio analysis:

(thousands of dollars)	2003	2002
Residential mortgages:		
Insured	$ 42,015	$ 35,816
Uninsured	94,327	60,625
Business and government loans	298,443	179,830
Personal loans	113,012	121,833
	547,797	398,104
Real estate held on foreclosure	1,369	2,228
	549,166	400,332
Allowance for credit losses:		
General	(1,353)	(1,112)
Specific loans	–	(100)
Real estate	(123)	(400)
	(1,476)	(1,612)
	547,690	398,720
Accrued interest	4,715	4,212
	$ 552,405	$ 402,932

The general allowance for credit losses has been allocated as follows: residential mortgages - $266,000 (2002 - $202,000); business and government loans - $731,000 (2002 - $477,000); personal loans - $356,000 (2002 - $433,000).

(b) Allowance for credit losses:

The allowance for credit losses results from the following:

(thousands of dollars)	General	Specific Loans	Real Estate	2003 Total Allowance	2002 Total Allowance
Balance, beginning of period	$ 1,112	$ 100	$ 400	$ 1,612	$ 1,586
Provision for credit losses	241	137	123	501	890
Write-offs	–	(237)	(400)	(637)	(864)
Balance, end of period	$ 1,353	$ –	$ 123	$ 1,476	$ 1,612

(c) Maturities and yields:

(thousands of dollars)	Floating	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	2003 Total	2002 Total
Total loans	$ 45,585	$ 15,476	$ 73,713	$ 62,977	$ 225,993	$ 124,053	$ 547,797	$ 398,104
Average effective yield	5.50%	7.95%	6.56%	6.94%	6.55%	6.33%	6.50%	7.04%
Adjusted for related derivatives	5.50%	7.88%	6.52%	6.94%	6.53%	6.37%	6.49%	6.82%

Average effective yields are based on book values and contractual interest rates, adjusted for the amortization of any deferred income.

(d) Impaired loans:

(thousands of dollars)	2003 Gross Impaired	2003 Specific Allowance	2003 Net Impaired	2002 Gross Impaired	2002 Specific Allowance	2002 Net Impaired
Residential mortgages	$ 4,885	$ –	$ 4,885	$ 7,557	$ 100	$ 7,457
Business and government loans	–	–	–	455	–	455
	$ 4,885	$ –	$ 4,885	$ 8,012	$ 100	$ 7,912

5. EQUITY INVESTMENTS AND LOANS:

(thousands of dollars)	2003	2002
Investments, on equity basis	$ 733	$ 946
Loans receivable from equity investments	1,940	7,087
	$ 2,673	$ 8,033

Equity investments and loans are comprised of interests in real estate development projects. Loans advanced by the Corporation to its equity investments have no fixed repayment terms and are unsecured.

6. OTHER ASSETS:

(thousands of dollars)	2003	2002
Prepaid expenses and other	$ 3,678	$ 3,963
Investment in development project	3,712	2,881
Future income tax asset (note 12)	6,755	6,360
Premises and equipment	2,904	2,968
Deferred financing charges	1,316	1,544
	$ 18,365	$ 17,716

7. DEPOSITS:

(thousands of dollars)	Floating	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Accrued Interest	2003 Total	2002 Total
Total deposits	$ 8,753	$ 139,868	$ 349,605	$ 72,910	$ 89,906	$ 12,187	$ 673,229	$ 636,351
Average effective interest rate	2.34%	3.18%	3.50%	5.43%	4.92%	–	3.82%	4.15%
Adjusted for related derivatives	2.34%	3.18%	3.98%	5.76%	5.25%	–	4.30%	5.00%

Average effective interest rates are based on book values and contractual interest rates.

8. NOTES PAYABLE:

(thousands of dollars)	2003	2002
9.0% Ten Year Term Series C Notes unsecured	$ 22,684	$ 22,684
9.25% Ten Year Term Series A Notes, convertible into common shares, unsecured	11,500	11,500
9.5% Ten Year Term Series A Notes, secured by a pledge of subordinated notes of equal value issued by PWB to the Corporation	2	2
	$ 34,186	$ 34,186

The 9.0% Series C Notes were issued on October 16, 1998 and mature in 2008.

The 9.25% Series A Notes were acquired on amalgamation with PacWest Ventures Ltd. on January 1, 2002. The promissory notes were issued on April 19, 2000, mature in 2010 and are convertible on the basis of one share for every $15.00 converted until April 19, 2005. Thereafter, they are not convertible.

9. OTHER LIABILITIES:

(thousands of dollars)	2003	2002
Accounts payable and other	$ 3,115	$ 5,377
Loans payable	2,750	2,890
	$ 5,865	$ 8,267

Loans payable bear interest at 12% per annum, are secured by a mortgage with a book value of $5,498,000 and mature in 2007.

10. SHARE CAPITAL:

(a) Authorized:

Common shares:

The Corporation is authorized to issue an unlimited number of common shares.

Class A preferred shares:

The Corporation is authorized to issue an unlimited number of Class A preferred shares. These shares are entitled to receive a cumulative dividend at the rate of 7.0% per annum. These shares are non-voting, non-participating and redeemable in certain circumstances at the option of the Corporation at the issue price and are convertible into common shares at prices ranging from $10.00 to $15.00 per common share. At October 31, 2003, cumulative and unpaid dividends totaled $207,000 (2002 - $207,000).

10. SHARE CAPITAL - continued:

(b) Issued and outstanding:

(thousands of dollars)		2003		2002
	Shares	Amount	Shares	Amount
Common shares:				
Outstanding, beginning of period	13,199,578	$ 32,794	10,437,748	$ 23,871
Shares issued on exercise of options	7,000	26	5,500	20
Shares issued on amalgamation	–	–	2,822,270	10,122
Shares repurchased for cancellation	(2,500)	(12)	(65,940)	(410)
Share issue costs, net of tax recovery		–		(809)
Outstanding, end of period	13,204,078	32,808	13,199,578	32,794
Class A preferred shares:				
Outstanding, beginning of period	1,142,556	3,545	–	–
Shares exchanged on amalgamation	–	–	1,142,556	3,545
Outstanding, end of period	1,142,556	3,545	1,142,556	3,545
Warrants:				
Outstanding, beginning of period		43		–
Cost of warrants granted		–		43
Outstanding, end of period		43		43
Total share capital		$ 36,396		$ 36,382

Effective January 1, 2002, the shareholders of the Corporation and PacWest Ventures Ltd. ("PacWest") passed resolutions authorizing the amalgamation of the two companies.

The amalgamation of the two companies was treated as a purchase by the Corporation of the remaining 55% of the issued and outstanding common shares of PacWest for a purchase price of $10,122,000.

As part of the amalgamation, all debts, liabilities and obligations of PacWest and the Corporation, including notes payable and preferred shares, become debts, liabilities and obligations of the amalgamated company.

(c) Warrants:

During the period ending October 31, 2002: (i) 12,000 warrants were granted and remain outstanding to purchase 12,000 common shares at $4.50 per share and expire July 26, 2007; and, (ii) 5,000 warrants were granted and remain outstanding to purchase 5,000 common shares at $5.70 per share and expire August 6, 2007.

11. STOCK-BASED COMPENSATION:

The Corporation has a stock option plan for its employees. Options are granted at an exercise price set at the closing market price of the Corporation's common shares on the day preceding the date on which the option is granted and are exercisable within ten years of issue. Options granted prior to September, 2000 vested immediately and options granted after September, 2000 typically vest over a two year period.

At October 31, 2003, 1,551,550 common shares have been reserved for stock options as follows:

Expiry date	Options outstanding	Options exercisable	Price
November 9, 2006	40,000	40,000	$ 3.50
January 15, 2007	12,000	12,000	4.85
September 15, 2007	141,800	141,800	6.40
March 12, 2008	145,800	145,800	7.55
June 18, 2008	197,000	197,000	3.00
October 9, 2008	217,200	217,200	10.25
January 4, 2010	14,100	14,100	16.00
March 10, 2010	100	100	17.50
July 21, 2010	1,500	1,500	4.80
September 18, 2010	431,600	431,600	11.50
September 26, 2010	281,000	281,000	4.00
March 9, 2011	7,000	7,000	7.00
May 15, 2011	8,000	8,000	6.00
May 28, 2011	10,000	10,000	6.50
May 28, 2011	20,000	20,000	2.80
October 24, 2011	4,000	4,000	3.75
November 1, 2012	7,450	2,485	4.40
August 28, 2013	1,000	334	5.25
October 30, 2013	12,000	6,005	5.75

Stock option transactions during 2003 and 2002 are as follows:

	2003 Number of shares	2003 Weighted-average exercise price	2002 Number of shares	2002 Weighted-average exercise price
Outstanding, beginning of period	1,551,100	$ 7.57	1,062,500	$ 9.50
Acquired on amalgamation	–	–	508,000	3.60
Granted	20,450	5.23	12,000	4.85
Exercised	(7,000)	3.71	(5,500)	3.64
Cancelled	(13,000)	10.62	(25,900)	8.31
Outstanding, end of period	1,551,550	$ 7.53	1,551,100	$ 7.57

The fair value of options granted during the year ended October 31, 2003 (ten months ended October 31, 2002), was determined using the Black-Scholes option pricing model with the following assumptions:

	2003	2002
Options granted	20,450	12,000
Options vested	8,824	12,000
Exercise price per share	$ 5.23	$ 4.85
Risk-free interest rate	4.05%	4.80%
Dividend yield	0%	0%
Expected volatility	63%	51%
Expected option life	5 years	5 years
Expected forfeiture rate	10%	5%

11. STOCK-BASED COMPENSATION - continued:

The results of these assumptions are as follows:

(thousands of dollars except per option and per share amounts)	2003	2002
Fair value per option	$ 2.97	$ 2.50
Pro forma net earnings (loss)	$ 1,488	$ (3,418)
Pro forma basic earnings (loss) per share	$ .09	$ (.27)
Pro forma diluted earnings (loss) per share	$ .09	$ (.27)

12. INCOME TAXES:

Income taxes, including both the current and future portions, vary from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 39.2% (2002 – 39.5%) to the earnings (loss) before income taxes. Income taxes have been computed as follows:

(thousands of dollars)	2003	2002
Tax (provision) recovery at basic rates	$ (488)	$ 2,323
Changes in taxes resulting from:		
Non-taxable income from securities	693	722
Effect of change in statutory tax rates	37	(346)
Non-taxable loss (gain) from investments	190	(63)
Federal large corporations tax	(128)	(89)
Other permanent differences	(37)	(54)
Income tax recovery	$ 267	$ 2,493

Income tax recovery is comprised of:

(thousands of dollars)	2003	2002
Current income tax provision	$ (128)	$ (94)
Future income tax recovery	395	2,587
	$ 267	$ 2,493

The components of future income tax balances are as follows:

(thousands of dollars)	2003	2002
Future income tax assets:		
Allowance for credit losses	$ 660	$ 579
Loss carry-forwards	7,431	8,600
	8,091	9,179
Future income tax liabilities:		
Deposit commissions	490	532
Securities valuation	218	1,575
Other	628	712
	1,336	2,819
Net future income tax asset	$ 6,755	$ 6,360

Loss carry-forwards will expire as follows:

(thousands of dollars)	
2006	$ 1,225
2007	2,827
2008	7,139
2009	8,593
2010	1,413

13. PER SHARE AMOUNTS:

Basic earnings (loss) per share

(thousands except per share amounts)	2003	2002
Net earnings (loss)	$ 1,512	$ (3,389)
Less dividends on preferred shares	(240)	(207)
Net earnings (loss) available to common shareholders	$ 1,272	$ (3,596)
Average number of common shares outstanding	13,198	13,231
Basic earnings (loss) per share	$ .10	$ (.27)

Diluted earnings (loss) per share

(thousands except per share amounts)	2003	2002
Net earnings (loss) available to common shareholders	$ 1,272	$ (3,596)
Average number of common shares outstanding	13,198	13,231
Dilutive effect of employee stock options	124	–
Average number of common shares outstanding assuming dilution	13,322	13,231
Diluted earnings (loss) per share	$ .10	$ (.27)

Employee stock options exclude those options where the exercise price is greater than the average market price.

14. DERIVATIVE INSTRUMENTS:

As at October 31, 2003, the Corporation had outstanding contracts for asset liability management ("ALM") purposes to swap between floating and fixed interest rates with notional amounts totalling $122,559,000 (2002 - $287,000,000). The Corporation only enters into these interest rate contracts for its own account and does not act as an intermediary in this market. The credit risk is limited to the amount of any adverse change in interest rates applied to the notional amount in the contract should the counterparty default. Approved counterparties and maximum limits on notional amounts are established by corporate policy. At October 31, 2003, the counterparties to these agreements consisted of Canadian chartered banks.

These contracts have a current replacement cost of $nil, a credit equivalent amount of $807,000 and a risk weighted balance of $161,000. At October 31, 2003, these contracts were in an unfavorable position of $6,437,000 (2002 - $13,207,000) (note 17).

The current replacement cost represents the positive fair value for all contracts without taking into account any master netting or collateral arrangements that have been made. The current replacement cost does not reflect actual or expected losses. The credit equivalent amount is the current replacement cost plus an add-on for potential future exposure based on a formula prescribed in the Capital Adequacy Guideline of the Superintendent. The risk weighted balance is the credit equivalent amount multiplied by counterparty risk factors prescribed by this Guideline.

The notional amounts of the contracts mature as follows:

(thousands of dollars)	
Within 3 months	$ –
3 months to 1 year	–
1 year to 2 years	50,000
2 years to 5 years	53,145
Over 5 years	19,414
	$ 122,559

15. INTEREST RATE RISK:

The Corporation is exposed to interest rate risk as a consequence of the mismatch, or gap, between assets, liabilities and off-balance sheet instruments scheduled to mature or reset on particular dates. The gaps, which existed at October 31, 2003, and 2002, are as follows:

	at earlier of maturity or reset date of interest rate sensitive instruments							
(thousands of dollars)	Floating rate	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets								
Cash resources	$ 28,326	$ 9,996	$ –	$ –	$ –	$ –	$ –	$ 38,322
Effective yield	2.50%	2.62%	–	–	–	–	–	
Securities	–	40,781	27,382	42,504	20,379	9,452	1,805	142,303
Effective yield	–	4.22%	6.38%	5.86%	6.56%	6.39%	–	
Loans	45,585	15,476	73,713	62,977	225,993	124,053	4,608	552,405
Effective yield	5.50%	7.95%	6.56%	6.94%	6.55%	6.33%	–	
Other	–	–	–	–	–	–	21,038	21,038
Total assets	$ 73,911	$ 66,253	$ 101,095	$ 105,481	$ 246,372	$ 133,505	$ 27,451	$ 754,068
Liabilities								
Deposits	$ 8,753	$ 139,868	$ 349,605	$ 72,910	$ 89,906	$ –	$ 12,187	$ 673,229
Effective rate	2.34%	3.18%	3.50%	5.43%	4.92%	–	–	
Notes payable	–	–	–	–	22,684	11,502	–	34,186
Effective rate	–	–	–	–	9.00%	9.25%	–	
Other	–	–	–	–	–	–	5,865	5,865
Total liabilities	$ 8,753	$ 139,868	$ 349,605	$ 72,910	$ 112,590	$ 11,502	$ 18,052	$ 713,280
On balance sheet gap	$ 65,158	$ (73,615)	$ (248,510)	$ 32,571	$ 133,782	$ 122,003	$ 9,399	$ 40,788
Off balance sheet financial instruments								
Derivatives used for ALM	–	23,086	99,473	(50,000)	(53,145)	(19,414)	–	
Effective rate	–	5.95%	6.24%	6.23%	5.95%	6.61%	–	
Total 2003 gap	$ 65,158	$ (50,529)	$ (149,037)	$ (17,429)	$ 80,637	$ 102,589	$ 9,399	$ 40,788
Total cumulative 2003 gap	$ 65,158	$ 14,629	$ (134,408)	$ (151,837)	$ (71,200)	$ 31,389	$ 40,788	$ –
Total 2002 gap	$ 37,644	$ 23,894	$ (37,117)	$ (26,192)	$ (5,216)	$ 34,910	$ 11,579	$ 39,502
Total cumulative 2002 gap	$ 37,644	$ 61,538	$ 24,421	$ (1,771)	$ (6,987)	$ 27,923	$ 39,502	$ –

Interest rate risk can be defined as the impact on net interest income, both current and future, resulting from a change in market interest rates. Interest rate swap agreements to exchange between floating and fixed interest rates are entered into for the purpose of limiting exposure to changes in interest rates. A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific maturity or repricing period. A positive gap will tend to lead to an increase in net interest income when market rates rise since assets are repricing earlier than liabilities. The opposite impact will occur when market interest rates fall.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The amounts set out in the table below represent the fair value of the Corporation's on and off-balance sheet financial instruments.

(thousands of dollars)				2003				2002
	Book Value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value	Book Value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value
Assets								
Cash resources	$ 38,322	$ 38,322	$ –	$ –	$ 42,150	$ 42,150	$ –	$ –
Securities	142,303	143,001	(247)	451	247,475	243,355	(944)	(5,064)
Loans	552,405	567,275	(1,332)	13,538	402,932	421,554	(1,333)	17,289
Other	21,038	21,038	–	–	25,749	25,749	–	–
	$ 754,068	$ 769,636	$ (1,579)	$ 13,989	$ 718,306	$ 732,808	$ (2,277)	$ 12,225
Liabilities								
Deposits	$ 673,229	$ 678,083	$ 4,858	$ 9,712	$ 636,351	$ 642,227	$ 10,930	$ 16,806
Notes payable	34,186	35,152	–	966	34,186	33,502	–	(684)
Other	5,865	5,865	–	–	8,267	8,267	–	–
	$ 713,280	$ 719,100	$ 4,858	$ 10,678	$ 678,804	$ 683,996	$ 10,930	$ 16,122
Total			$ (6,437)	$ 3,311			$ (13,207)	$ (3,897)

The fair value amounts have been determined using the valuation method and assumptions described below:

- The fair values of securities are determined based on quoted market prices.
- The fair value of loans is based on net discounted cash flows using market interest rates for loans and appraised values for real estate.
- The fair value of deposits is determined based on discounted cash flows using market interest rates.
- The fair value of notes payable is determined by referring to current trading values.
- The fair value of ALM derivatives is derived from external sources.

17. SEGMENTED INFORMATION:

The Corporation operates in only one business segment providing lending services primarily to commercial, public sector and personal markets. Its lending activities are to clients in all of the Canadian provinces.

18. ASSETS UNDER ADMINISTRATION:

At October 31, 2003, the Corporation has assets under administration of $43,932,000 (2002 - $52,048,000). These assets are maintained separately from the Corporation's assets and are not included in the Consolidated Balance Sheets.

19. COMMITMENTS AND CONTINGENCIES:

The amounts of credit related commitments represents the maximum amount of additional credit that the Corporation could be obliged to extend. The amounts with respect to letters of credit are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

(thousands of dollars)	2003	2002
Loan commitments	$ 75,006	$ 75,518
Letters of credit	10,500	4,427
	$ 85,506	$ 79,945

The Corporation has guaranteed the repayment of bank indebtedness of one of its equity investments to the extent of $1,500,000. The guarantee expires when the related bank indebtedness has been repaid in full. Payments under the guarantee would be required if the investee fails to meet the scheduled repayments. While the Corporation does not expect to be required to make any payments related to the guarantee, any amounts paid may not be recoverable.

The Corporation has obligations under leases for rental of premises. Minimum future lease commitments for each of the five succeeding years and thereafter are as follows:

(thousands of dollars)	
2004	$ 342
2005	262
2006	102
2007	102
2008	102
2009 and thereafter	–

PACIFIC & WESTERN CREDIT CORP.

DIRECTORS

Peter R. Lockyer, LL.B., Q.C.
Director, Chairman of the Board
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada
Partner, Lockyer Spence LLP, Barristers and Solicitors

Kingsley G. Allaster, B.A. (Hons.), C.A.,
Director - Pacific & Western Credit Corp.
Chief Operating Officer, Venture Capital London Inc.,
President, Kingsley G. Allaster & Associates

David A. Bratton, B.A. (Hons.), M.B.A., C.M.C.
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and Pacific & Western Bank of Canada
President, Bratton Consulting Inc.

Dale E. Creighton, B.A., CLU., CH.F.C., LLIF
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and Pacific & Western Bank of Canada
Former Deputy Chairman, London Life Insurance Company

Douglas W. Gough, B.B.A., M.B.A.
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and Pacific & Western Bank of Canada
Partner, Mintz & Partners, Financial Services

Arnold E. Hillier, B.Comm., C.A.
Director - Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada
Vice-Chairman, Chief Executive Officer and
Chief Financial Officer, Claude Resources Inc.

Alexander Mikalachki, B.Comm., M.B.A., Ph.D.
Director - Pacific & Western Credit Corp.
Professor Emeritus, Richard Ivey School of Business,
University of Western Ontario

William T. Mitchell, FCA
Director - Pacific & Western Bank of Canada
Former Partner, PricewaterhouseCoopers LLP

Francis J.C. Newbould, B.A., LL.B., Q.C.
Director - Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada
Partner, Borden Ladner Gervais LLP, Barristers and Solicitors

C. Scott Ritchie, B.B.A. (Hons.), LL.B., Q.C.
Director - Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada
Partner, Siskind, Cromarty, Ivey, & Dowler LLP,
Barristers and Solicitors

David R. Taylor, B.Sc. (Hons.), M.B.A., F.I.C.B.
Director - Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada
President and Chief Executive Officer
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

OFFICERS

David R. Taylor, B.Sc. (Hons.), M.B.A., F.I.C.B.
President and Chief Executive Officer
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Richard H.L. Jankura, B.B.A. (Hons.), C.A.
Senior Vice-President, Risk Management
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Jonathan F.P. Taylor, B.B.A.
Senior Vice-President, Operations
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Barry D. Walter, B.Comm., C.A.
Chief Financial Officer
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

John W. Asma, B.A. (Hons.), M.B.A.
Vice-President and Treasurer
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Ross P. Duggan
Vice-President
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Barbara E.M. Hale, LL.B.
Vice-President, Compliance, General Counsel and Secretary
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Tel G. Matrundola, M.A., Ph.D.
Vice-President, Public & Government Relations
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Bruce M. Schruder, B.B.A. (Hons.), F.I.C.B.
Vice-President
Pacific & Western Credit Corp.
and Pacific & Western Bank of Canada

Pacific & Western
Credit Corp.

CORPORATE INFORMATION

Solicitors
MacPherson Leslie & Tyerman
1500 — 410 22nd Street East
Saskatoon, Saskatchewan
S7K 5T6

Lockyer Spence LLP
Suite 600, 465 Richmond Street
London, Ontario
N6A 5P4

Auditors
KPMG LLP
600 — 128 4th Avenue South
Saskatoon, Saskatchewan
S7K 1M8

Bank
Canadian Imperial Bank of Commerce
201 — 21st Street East, Main Branch
Saskatoon, Saskatchewan
S7K 0B8

Transfer Agent
Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario
M5J 2Y1

Stock Exchange Listing
The Toronto Stock Exchange
Trading Symbol: PWC

Corporate Offices
London Office
Suite 2002, 140 Fullarton Street
London, Ontario
N6A 5P2
Telephone: (519) 645-1919
Fax: (519) 645-2060

Saskatoon Office
950 — 410 22nd Street East
Saskatoon, Saskatchewan
S7K 5T6
Telephone: (306) 244-1868
Fax: (306) 244-4649

Toronto Office
357 Bay Street
8th Floor
Toronto, Ontario
M5H 2T7
Telephone: 1-866-787-9936
Fax: (416) 203-8588

Investor Relations
Telephone: 1-866-787-9936
www.pwcorp.com

Annual Meeting
April 2, 2004 at 11:00 a.m.
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Landscape with rising sun by Vincent van Gogh

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